

NESS COUNTY CONSERVATION DISTRICT

Ness City, Kansas

Financial Statements with Independent Auditors' Report

For the Year Ended December 31, 2006

NESS COUNTY CONSERVATION DISTRICT
Financial Statements with Independent Auditors' Report
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Ness County Conservation District
Ness City, Kansas 67560

We have audited the accompanying financial statements of **Ness County Conservation District** as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Conservation District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, **Ness County Conservation District** its financial statements using accounting practices prescribed or permitted by the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of **Ness County Conservation District**, as of December 31, 2006, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each fund of the **Ness County Conservation District**, as of December 31, 2006, their respective cash receipts and disbursements for the year then ended, on the basis of accounting described in Note 1.

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Certified Public Accountants

May 14, 2006

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NESS COUNTY CONSERVATION DISTRICT
Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2006

Fund	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Funds							
Operations Fund	\$ -	-	46,130	48,370	(2,240)	5,235	2,995
Special Revenue Fund							
Building Fund	16,000	-	390	390	16,000	-	16,000
Proprietary Fund							
Enterprise Fund	228,005	-	575,144	490,171	312,978	58,973	371,951
Total Government	\$ 244,005	-	621,664	538,931	326,738	64,208	390,946
Composition of Cash:							
							\$
Checking Account - First State Bank, Ness City							233,694
Checking Account - First State Bank, Ness City							2,995
Certificate of Deposit - First State Bank, Ness City							9,000
Money Market Account - First State Bank, Ransom							34,101
Checking Account - Farmers Bank & Trust, Bazine							11,156
Certificate of Deposit - Farmers Bank & Trust, Bazine							100,000
Total Government							\$ 390,946

The notes to the financial statements are an integral part of this statement.

NESS COUNTY CONSERVATION DISTRICT
Operations Fund
Statements of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2006
(With Comparative Totals for the Year Ended December 31, 2005)

	<u>2006</u>	<u>2005</u>
Cash Receipts		
Appropriations - County	\$ 16,920	19,080
Appropriations - State	10,000	10,000
NRCS Buffer Initiative Grant	9,250	5,000
Donations	1,000	1,600
Federal Aid	918	646
Interest	125	54
Miscellaneous	917	-
Transfers In	7,000	3,237
Total Cash Receipts	<u>46,130</u>	<u>39,617</u>
Expenditures		
Salaries and Wages	41,943	32,649
Health Insurance	6,412	6,194
Bank Service Charges	15	40
Total Expenditures	<u>48,370</u>	<u>38,883</u>
Receipts Over (Under) Expenditures	(2,240)	734
Unencumbered Cash, January 1	<u>-</u>	<u>(734)</u>
Unencumbered Cash, December 31	\$ <u><u>(2,240)</u></u>	<u><u>-</u></u>

The notes to the financial statements are an integral part of this statement.

NESS COUNTY CONSERVATION DISTRICT
Building Fund
Statements of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2006
(With Comparative Totals for the Year Ended December 31, 2005)

	<u>2006</u>	<u>2005</u>
Cash Receipts		
Interest on Investments	\$ 594	390
Expenditures		
Transfers Out	<u>594</u>	<u>390</u>
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, January 1	<u>16,000</u>	<u>16,000</u>
Unencumbered Cash, December 31	<u><u>\$ 16,000</u></u>	<u><u>16,000</u></u>

The notes to the financial statements are an integral part of this statement.

NESS COUNTY CONSERVATION DISTRICT
Enterprise Fund
Statements of Cash Receipts and Expenditures - Actual
For the Year Ended December 31, 2006
(With Comparative Totals for the Year Ended December 31, 2005)

	<u>2006</u>	<u>2005</u>
Cash Receipts		
Grass Seed Sales	\$ 459,558	419,196
Drilling of Grass Seed	101,008	82,674
Flag Sales	18	21
Trees	3,039	4,763
Weed Barrier	3,698	13,141
Partnership Buffer Grant	-	5,000
Interest	6,269	4,030
Information and Education	167	2,526
Transfers In	594	390
Other	793	861
Total Cash Receipts	<u>575,144</u>	<u>532,602</u>
Expenditures		
Salaries and Wages	-	8,520
Contract Labor	85,707	60,675
Grass Seed	376,386	392,670
Information and Education	981	1,816
State and National Dues	1,536	2,241
Supervisor/Employee Expense	2,907	3,212
Annual Meeting	2,590	1,434
Office Supplies	265	470
Legal & Professional	1,100	1,150
Equipment	4,340	3,170
Rent	980	400
Insurance	3,492	3,190
Weed Barrier	1,560	6,405
Other	1,327	7,193
Transfers Out	7,000	-
Total Expenditures	<u>490,171</u>	<u>492,546</u>
Receipts Over (Under) Expenditures	<u>84,973</u>	<u>40,056</u>
Unencumbered Cash, January 1	<u>228,005</u>	<u>187,949</u>
Unencumbered Cash, December 31	<u>\$ 312,978</u>	<u>228,005</u>

The notes to the financial statements are an integral part of this statement.

NESS COUNTY CONSERVATION DISTRICT

Notes to Financial Statements

December 31, 2006

1. Summary of Significant Accounting Policies

The **Ness County Conservation District** has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The accompanying financial statements are presented to conform to the statutory basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

A. Financial Reporting Entity

The **Ness County Conservation District** is a municipality governed by an elected five-member board under K.S.A. 75-1117. The Conservation District receives funding from local, state, and federal governmental sources and must comply with the requirements of these funding sources. These financial statements present the financial position of **Ness County Conservation District**.

B. Basis of Presentation - Fund Accounting

The accounts of the Conservation District are organized and operated on the basis of funds. In governmental accounting, a fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained and consistent with legal and managerial requirements.

The following categories of funds comprise the financial activities of the Conservation District for the year 2006.

Governmental Funds

General Fund - Operations Fund - To account for all tax appropriated funds from the County of Ness, Kansas and the State Conservation Commission and other unrestricted income not accounted for in another fund.

Special Revenue Fund - Building Fund

To account for funds set aside for the entity's building.

Proprietary Fund

Enterprise Fund - To account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the statutory basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract.

The **Ness County Conservation District** has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

NESS COUNTY CONSERVATION DISTRICT

Notes to Financial Statements

December 31, 2006

1. Summary of Significant Accounting Policies (cont.)

D. Departure from Accounting Principles Generally Accepted in the United States

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown non-cash assets such as receivables, inventories, and prepaid expenses; liabilities such as deferred revenue, matured principal, interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the year in accordance with generally accepted accounting principles. General capital assets that account for the land, buildings, and equipment owned by the Conservation District are not presented in the financial statements. Also, general long term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

E. Accounting for Capital Assets and Depreciation

The Conservation District does not maintain a record of capital assets used in performance of general government operations and the proprietary funds as required by generally accepted accounting principles.

F. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is utilized in the governmental funds.

G. Deposits

The Conservation District follows the practice of pooling cash of all funds. Each fund's portion of total cash is summarized by fund type in the Summary of Cash Receipts, Expenditures, and Unencumbered Cash.

At December 31, 2006, the Conservation District had no investments.

K.S.A. 9-1401 establishes the depositories which may be used by the Conservation District. The statute requires banks eligible to hold the Conservation District's funds have a main or branch bank in the county in which the Conservation District is located or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Conservation District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Conservation District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Conservation District has no investment policy that would further limit its investment choices.

NESS COUNTY CONSERVATION DISTRICT

Notes to Financial Statements

December 31, 2006

1. Summary of Significant Accounting Policies (cont.)

G. Deposits (cont.)

Concentration of credit risk. State statutes place no limit on the amount the Conservation District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the Conservation District's deposits may not be returned to it. State statutes require the Conservation District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Conservation District did not use "peak periods" during 2005. Deposits of \$1,767 were not legally secured as of December 31, 2006.

At December 31, 2006, the District's carrying amount of deposits was \$390,946 and the bank balance was \$335,549. Of the bank balance, \$245,257 was covered by federal depository insurance and \$88,525 was collateralized with securities held by the pledging financial institutions agents in the Conservation District's name. The remaining \$1,767 of the bank balance was unsecured.

H. Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures during the year of purchase as required by state statutes.

I. Compensated Absences

Vacation leave is granted on the basis of 104 hours for the first three years, 156 hours after three years, and 208 hours after 15 years of employment. Such leave will not be accumulative from one year to the next; thus, no accrued vacation liability has been presented for the year 2006.

Sick leave is accrued ten days per calendar year up to a maximum of 60 days for all full time employees. The accrued potential sick leave as of December 31, 2006 was \$1,956.

J. Defined Benefit Pension Plan

Plan Description - The Conservation District participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas, Suite 100; Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy - K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on the annual increases in the contribution rate for KPERS employers. The employer rate established by statute for January 1, 2006 to June 30, 2006 was 4.61% and for July 1, 2006 to December 31, 2006 was 4.81%. The Conservation District employer contributions to KPERS for the years ending December 31, 2006, 2005, and 2004 were \$1,802, \$1,201, and \$1,098 respectively, equal to the required contributions for each year.

NESS COUNTY CONSERVATION DISTRICT

Notes to Financial Statements

December 31, 2006

2. Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions and asset acquisitions as authorized by Kansas Statutes. The Conservation District's operating transfers and statutory authority for the year ended December 31, 2006 were as follows:

<u>From</u>	<u>To</u>	<u>Authority</u>	<u>2005</u>
Building	Enterprise	KSA 2-1407b	\$ 594
Enterprise	Operations	KSA 2-1407b	7,000
			<u>\$ 7,594</u>

3. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the statutory basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Risk Management - Claims and Judgements

The Conservation District is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Conservation District carries commercial insurance for risk of loss, including property, general liability, and fidelity bond coverage.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

Liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated. As of December 31, 2006, the financial statements do not include liabilities for anticipated costs.

5. Litigation

The Conservation District is party to various legal proceedings, which normally occur in governmental operations. The legal proceedings are not likely to have a material adverse impact on the funds of the Conservation District.

6. Grants and Shared Revenues

The Conservation District participates in numerous state and federal grant programs, which are governed by various rules and regulations for the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Conservation District has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the Conservation District, any liability for reimbursement, which may arise as the result of an audit, is not believed to be material.

7. Comparative Data

Comparative data for the prior year has been presented in Statement 2 in the accompanying financial statements in order to provide an understanding of changes in the Conservation District's cash and unencumbered cash balances. However, complete comparative data (i.e., presentation of prior year totals in Statement 1) has not been presented since their inclusion would make the statement unduly complex and difficult to read.

NESS COUNTY CONSERVATION DISTRICT

Notes to Financial Statements

December 31, 2006

8. Compliance with Kansas Statutes

Expenditures exceeded available monies in the Operations Fund by (\$2,240), which is in violation of K.S.A. 10-1113.

Deposits with statutorily authorized financial institutions were under secured by \$1,767, which is in violation of K.S.A. 9-1402.



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Board of Directors
Ness County Conservation District
Ness City, Kansas 67560

MANAGEMENT LETTER

In planning and performing our audit of the financial statements of **Ness County Conservation District** as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered **Ness County Conservation District's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

There is an absence of appropriate segregation of duties consistent with appropriate control objectives.

The size of the Conservation District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board remains involved in the financial affairs of the Conservation District to provide oversight and independent review functions.

In addition, we noted other matters involving the internal control and its operation that we have reported below.

Other Matters

To be in compliance with K.S.A. 75-1120a(c) and waive the requirement to report under generally accepted accounting principles, the board must continue to pass a resolution each year allowing the Conservation District to report using the statutory basis of accounting.

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The Operations Fund had a negative unencumbered cash balance as of December 31, 2006. We suggest increasing the December transfer from the Enterprise Fund to the Operations Fund to cover accrued payroll and payroll liabilities incurred but not paid until 2007. Please contact us if you need assistance in calculating the necessary transfer amount.

Per K.S.A. 9-1401, depositories should be officially designated in the minutes. This designation is not required annually but is recommended whenever there is a change in board members. Thus, a designation of depositories should be made in the 2007 minutes due to the addition of new board members.

To be in compliance with SAS No. 99, Auditor Responsibility for Fraud, we were required to perform additional procedures incorporating an element of unpredictability. We performed these procedures as well as inquired with management and other individuals. Our procedures identified no instance requiring attention or communication.

This report is intended solely for the information and use of the Board of Directors, management and others within the Conservation District and is not intended to be and should not be used by anyone other than these specified parties.

Adams, Brown, Beran & Ball

ADAMS, BROWN, BERAN & BALL, CHTD.
Certified Public Accountants

May 14, 2007